

1986

## Property Taxation.

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## Official Title and Summary Prepared by the Attorney General

**PROPERTY TAXATION. LEGISLATIVE CONSTITUTIONAL AMENDMENT.** Currently Constitution limits ad valorem property taxes to maximum of 1% of the property's full cash value. An exception to the 1% limit is provided for ad valorem taxes or special assessments to pay interest and redemption charges on indebtedness approved by the voters before July 1, 1978. This measure would provide a further exception to the 1% limit; it would be inapplicable to bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition. Summary of Legislative Analyst's estimate of net state and local government fiscal impact: By itself, measure has no fiscal effect. No increase can occur in property tax rate unless two-thirds of those voting in local election approve issuance of general obligation bonds. State costs for tax relief programs could increase, because cost of these programs rises as local property tax rate increases. State income tax revenues could decline as taxpayers deduct greater amounts for property tax payments on state income tax returns.

## Final Vote Cast by the Legislature on ACA 55 (Proposition 46)

Assembly: Ayes 72  
Noes 2

Senate: Ayes 30  
Noes 2

## Analysis by the Legislative Analyst

**Background**

Under the California Constitution, real property (such as land and buildings) is taxed on the basis of its "full cash value." The Constitution limits the tax rate on real property to 1 percent of its full cash value. This limit, however, may be exceeded in order to raise the money needed to pay off debt approved by the voters *prior* to July 1, 1978.

Before 1978, local governments and school districts issued "general obligation" bonds to finance land acquisition and building construction. General obligation bonds are backed by the issuer's promise to raise its property tax rate to assure that enough money is available to pay off the bonds. The 1-percent limit on the property tax rate, however, has prevented local governments from issuing new general obligation bonds.

Consequently, local governments and schools must either forgo land acquisition and building construction or finance these activities in other ways, such as through the sale of "revenue" bonds or through lease-purchase arrangements. These financing alternatives generally require the local government or school district to pay a higher rate of interest than the rate it would have to pay on general obligation bonds.

**Proposal**

This constitutional amendment would allow local gov-

ernments and schools to increase the property tax rate above 1 percent for the period necessary to pay off new general obligation bonds under the following conditions:

- two-thirds of those voting in a local election must approve the issuance of the bonds; and
- the money raised through the sale of the bonds must be used exclusively to purchase or improve real property (that is, land and buildings).

**Fiscal Effect**

By itself, this measure has no fiscal effect. The measure merely permits local voters to approve an increase in the property tax rate. No increase can occur in the property tax rate if this measure is adopted, unless two-thirds of those voting in a local election approve the issuance of general obligation bonds.

If local voters approve the issuance of new general obligation bonds, state costs and revenues could be affected in two ways. First, state costs for tax relief programs could increase, because the cost of these programs rises as the local property tax rate increases. Second, state income tax revenues could decline as taxpayers deduct greater amounts for property tax payments on their state income tax returns.

The most effective letter going to government: ☒ Vote Tuesday.

Michael Schaefer, La Jolla

## Argument in Favor of Proposition 46

Proposition 46 protects your taxes from wasteful spending.

Proposition 46 *requires a two-thirds vote by local taxpayers* to use general obligation bonds to build and repair police and fire stations, community hospitals, and neighborhood schools. General obligation bonds mean major savings for taxpayers.

The State of California is already using general obligation bonds. *IF LOCAL GOVERNMENTS HAD BEEN ABLE TO USE THESE BONDS LAST YEAR THEY WOULD HAVE SAVED MORE THAN \$50 MILLION IN INTEREST COSTS.*

Proposition 46 puts local voters, not the politicians, in charge of determining when—and if—general obligation bonds should be used. Proposition 46 returns decision-making authority to local taxpayers.

Without Proposition 46, local government officials will continue to use so-called "creative financing" to borrow money at a higher cost to you. And they will continue to do this without your vote of approval.

The extra money spent on more expensive borrowing means less money for needed projects. *WHEN CITIES AND COUNTIES USE MORE COMPLICATED FINANCING SCHEMES FOR LOCAL PROJECTS, MORE OF YOUR MONEY GOES TO PAY INTEREST, LAWYERS, AND FINANCIAL CONSULTANTS. THIS ADDS TO YOUR TAX BILL.*

We all know the bad condition of our local streets and roads and the health hazards of toxic waste and inadequate sanitation facilities. Proposition 46 will give you a cheaper and quicker way to solve these problems.

General obligation bonds can be used only for constructing essential, permanent public facilities. They cannot be used for government employee salaries or pensions, and they cannot be used for unnecessary or temporary items like office equipment and government cars.

Proposition 46 will continue the tradition of strengthening local voter control over local financial issues. No local agency will be able to spend any of your tax dollars on general obligation bonds without your approval.

Best of all, Proposition 46 will mean LOWER interest payments and a saving of tens of millions of dollars to taxpayers.

Vote yes on Proposition 46.

DOMINIC CORTESE

*Member of the Assembly, 24th District*

*Chair, Assembly Local Government Committee*

RICHARD P. SIMPSON

*Executive Vice President*

*California Taxpayers' Association*

KIRK WEST

*President*

*California Chamber of Commerce*

## No argument against Proposition 46 was filed

## Text of Proposed Law

This amendment proposed by Assembly Constitutional Amendment 55 (Statutes of 1984, Resolution Chapter 142) expressly amends the Constitution by amending a section thereof; therefore, existing provisions proposed to be deleted are printed in ~~strikeout type~~ and new provisions proposed to be inserted or added are printed in *italic type* to indicate that they are new.

PROPOSED AMENDMENT TO ARTICLE XIII A,  
SECTION 1

(b) The limitation provided for in subdivision (a) shall not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on (1) any indebtedness approved by the voters prior to ~~the time this section becomes effective~~, July 1, 1978, or (2) *any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition.*